

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Oakland Cty Community Mental Health Auth	County Oakland
Fiscal Year End 9/30/06	Opinion Date 11/21/06	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

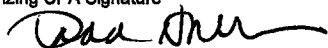
YES
O

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) A-133 Report	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran, PLLC		Telephone Number 810-767-5350	
Street Address 111 E. Court St., Suite 1A		City Flint	State MI
Zip 48502			
Authorizing CPA Signature 		Printed Name Tadd Harburn	License Number 1101014134

Financial Statements

**Oakland County
Community Mental Health Authority**

Auburn Hills, Michigan

September 30, 2006 and 2005

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Letter of Transmittal

History of the Oakland County Community Mental Health Authority

Public Act 54 of 1963

In 1963 the Michigan Legislature passed Public Act 54 that permitted counties to establish local, community-based mental health outpatient programs funded by the state and the county. The county of Oakland promptly took advantage of the new legislation, becoming the *first* county in the state of Michigan to establish a community mental health services board. The board held its first meeting on December 13, 1963. It is now one of forty-six (46) such boards covering the eighty-three (83) counties of Michigan.

The Mental Health Code: Public Act 258 of 1974

The year 1974 saw the publication of the first Michigan Mental Health Code, also known as P.A. 258. Under the code, a county or combination of counties could elect to establish a CMH program, operated under the auspices of a community mental health board consisting of twelve (12) members appointed by the county commissioners for three (3) year overlapping terms. The statute required each CMH Board to submit an annual plan and budget to the Department of Mental Health for approval. The required state financing was changed to an appropriation of 90% state funds with the counties responsible for the remaining ten percent (10%).

With the rise of community-based care, the primary responsibility for providing that care shifted from the state to the CMH's. This transition occurred in stages. In 1981 the then Michigan Department of Mental Health (MDMH) began offering CMH's "shared management" contracts whereby CMH's shared responsibility with the state for planning and coordinating public mental health services. The MDMH also began offering "full management" contracts wherein the entire responsibility for providing public mental health services was shifted to the CMH's. This movement began in 1981 with four (4) full management contracts. Oakland County was one of the *last* to sign a full management contract with the state. Oakland County entered into its first full management contract in 1994. Full management offered "trade off" dollars to build the local CMH budget because the funds that were used to support individuals in institutions were transferred to the CMH which could then use any savings from consumers who moved into the community at less cost than the state facility rates.

The Revised Mental Health Code: Public Act 290 of 1995

An extensive revision to the Mental Health Code was undertaken in 1995 with Public Act 290 of 1995, which took effect March 28, 1996.

There were four major categories of changes in the revisions to the Mental Health Code:

1. Creation of a Mental Health Authority
2. Improved accountability of system (e.g. certification/accreditation and Person Centered Planning)
3. Significant increase in consumer involvement as demonstrated by the requirement of 1/3 consumers on all CMH boards as well as on the state advisory council.
4. Inclusion of a new chapter regarding due process for recipient rights, including provisions for both local and appeals.

Under the revisions, Community Mental Health Services Programs could be organized as:

A county CMH *agency* which is an existing community mental health board that does not elect to convert itself into a community mental health organization or authority; or a CMH *organization* which is a joint enterprise created by two or more counties under P.A. 7 of 1967, the Urban Cooperation Act, that legally separates the entities from the counties that establish it; an organization is similar to an authority except that it is not available for single county boards and it does not have the same limit to local funding, or

A CMH *authority*.

A CMH *authority* is still a governmental entity but is legally separate from the county or counties that establish it. All employees are employees of the authority and not the county. The authority must be certified by the Michigan Department of Community Health (MDCH) and it can exercise powers not accorded to CMH agencies, such as: acquiring, owning, operating, maintaining, leasing, or selling real or personal property; and acquiring, constructing, maintaining, or operating buildings or improvements.

The Board

On January 1, 1999, the Oakland County Community Mental Health Services Program became an Authority pursuant to an enabling resolution passed by the Oakland County Board of Commissioners in October 1998.

The current Oakland County Community Mental Health Authority Board is made up of twelve (12) members appointed to staggered three-year terms so that four members' terms expire each year.

Medicaid History

In the State of Michigan, Medicaid was billed on a Fee for Service (FFS) basis throughout the mid-1980's until October of 1998. The next phase in the devolution of responsibility from the state to the local level occurred in fiscal year 1998-1999 when the state implemented a 1915 (b) waiver in combination with an existing 1915 (c) waiver obtained from the Health Care Financing Administration (HCFA) for managed care for Medicaid enrollees in Michigan. The state carved out most of the mental health benefits and developmental disabilities services to the CMH's from the health plans delivering medical services. The CMH's signed a new kind of contract with the state for this carve out termed a Managed Specialty Services and Supports contract and accepted capitated funding for this managed care program. This Medicaid waiver and resultant contract provides for much greater flexibility in the delivery of services and supports to consumers. This managed care plan is based on the Michigan requirement for person-centered planning, does not allow for waiting lists for the service system, and maintains a "carve out" for specialty services/supports for the populations served under the Mental Health Code.

In 1998, CMH's were referred to as Pre-Paid Health Plans (PHP's) in the "carve out" and this term was maintained through the October 2000 contract renewal process. In 2002, CMH's were required to submit an "Application for Participation" (AFP) for scoring by the Michigan Department of Community Health in order to be considered eligible to qualify as an entity (PIHP, Prepaid Inpatient Health Plan) capable of administering the managed specialty services/supports under the waiver program.

One of the AFP requirements mandated a minimum number of Medicaid eligibles (20,000) in the respective catchment areas in order to submit an AFP. Oakland County CMH Authority qualified with 75,000 Medicaid eligibles and was awarded a successful score of 100% on its AFP and is today one of 18 PIHP's in Michigan.



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Independent Auditors' Report

To the Board
Oakland County Community Mental Health Authority
Auburn Hills, Michigan

We have audited the accompanying financial statements of the business type activities, the major fund, and the aggregate remaining fund information of Oakland County Community Mental Health Authority, a component unit of Oakland County, as of and for the years ended September 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express a opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, the major fund, and the aggregate remaining fund information of Oakland County Community Mental Health Authority as of September 30, 2006 and 2005, and the changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on Oakland County Community Mental Health Authority's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also separately issued our report dated November 21, 2006, on our consideration of the Oakland County Community Mental Health Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, in a separately issued single audit report. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Plante & Moran, PLLC

February 22, 2007

Management's Discussion and Analysis

Analysis of Financial Operations for FY 2006

The Oakland County Community Mental Health Authority has completed its operations for FY 2006. The results of which are contained in this set of audited financial statements. During FY 2006, OCCMHA continued to operate as a financially strong organization with enough resources and efficiencies to once again devise creative ways of enhancing and expanding services to the individuals we serve. The Authority, in partnership with our Core Provider Agencies, expanded and enhanced a variety of services including the following:

- Pharmacy
- Dental
- Case Management Services
- Community Living Supports
- Additional Outpatient Clinical Services
- Expanded Clubhouse and Peer Delivered Services
- Direct Care Wage Increase

The Authority continues to place emphasis on core financial activities and strategies to ensure current and future economic stability, appropriate allocation of resources across our network of providers, and efficient and effective use of the resources allocated. Some of these activities and strategies include:

- Internal controls over accounting and other fiscal activities.
- Annual budget development and monitoring.
- Contract and fiscal monitoring of Core Provider Agencies.
- Utilization management strategies.
- Cost Integrity Group cost analyses and strategies.
- Extensive review and analysis of internal and external financial information.
- Advocate for appropriate revenue allocation to the Authority from the state and monitor revenues and contract compliance.
- Management practices enhanced by access to ever improving data history and analytical reporting tools.
- Investment strategies in accordance with our approved investment policy.
- Quality assessment strategies.

This emphasis helped the Authority increase its organizational net assets to more than \$26 million.

Financial Statements

The Authority's financial statements include three statements: a Statement of Net Assets; a Statement of Revenues, Expenses, and Changes in Fund Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority, including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. All of these statements compare FY2006 results with FY2005 results. Major changes in results are explained in the following sections.

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Fund Net Assets

The presentation of the Authority's audited financial statements begins on page 9. The Balance Sheet presents information about the resources and obligations of the Authority as of September 30, 2006. This statement includes all restricted and unrestricted assets, and all liabilities. The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents the accumulated totals of all the revenue and expense transactions occurring during FY2006. The Authority uses the accrual basis of accounting which means all of the FY2006 revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net assets and changes in them. You can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating.

Statement of Net Assets

The Statement of Net Assets is a statement that shows the financial position of an organization at a particular point in time. When total assets exceed total liabilities the difference is expressed as net assets. Condensed financial information and explanations for accounts with significant variances from the prior year (see page 9 and 10) are provided below:

Net Assets (in thousands)		<u>2006</u>	<u>2005</u>
Assets:			
Other assets		\$ 43,423	\$ 39,451
Capital assets – net		<u>4,782</u>	<u>4,831</u>
Total assets		<u>48,205</u>	<u>44,282</u>
Liabilities:			
Other liabilities		19,848	15,929
Long-term liabilities		<u>2,257</u>	<u>2,576</u>
Total liabilities		<u>22,105</u>	<u>18,505</u>
Net assets:			
Restricted		6,453	6,059
Invested in capital assets, net of debt		2,205	1,950
Unrestricted		<u>17,442</u>	<u>17,768</u>
Total net assets		<u>\$ 26,100</u>	<u>\$ 25,777</u>

Cash and Investments increased by \$3,823,000 in FY2006 due to a similar increase in unpaid obligations, due to the state, at fiscal year end which included the fourth quarter Quality Assurance Assessment Program (QAAP) tax obligation of \$2.7 million not yet paid as of fiscal year end.

Accounts Receivable decreased \$720,000 as a result of payments made by providers to the Authority to settle prior year cost settlements. In FY2006 providers lapsed fewer dollars back to the Authority than in FY2005.

Due from/to other Funds consists mostly of funds due to the Internal Service funds reserved for risk established in prior years. The current year increase is the interest earned on invested risk reserve funds.

Due from State increased \$355,000 mainly due to the HAB Supports Waiver receivable from the State which increased from approximately \$700,000 for fiscal year 2005 to approximately \$1.0 million for fiscal year 2006.

Due to the State increased \$3,544,000 because the fourth quarter QAAP payment of \$2.7 million had not yet been remitted to the State at year end. The remainder of the increase was an increase in the amount due to the State for State Facilities.

Deferred Revenue increased \$86,000. This represents the estimated FY2006 cost settlement amount potentially due to the Office of Substance Abuse Services for service costs reported in excess of funding received.

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the Authority's net assets changed during FY2006. The Authority receives the bulk of its revenues from Medicaid capitation payments, State General Funds, and Oakland County local match payments. These revenue sources account for approximately 98% of the Authority's revenues. This report can help identify potential problem areas that should be addressed by management. Condensed financial information and explanations for accounts with significant variances from the prior year (see page 11 and 12) are provided below:

Changes in Net Assets (in thousands)		
	<u>2006</u>	<u>2005</u>
Revenues:		
Medicaid	\$183,847	\$161,872
State General Funds	50,786	50,829
Other Capitated	2,055	2,174
Local	9,908	9,869
Grants	1,074	924
Total revenues	<u>247,670</u>	<u>225,668</u>
Expenses:		
Administrative	9,220	8,779
Providers of services	202,229	191,166
State facilities	7,517	5,469
Other	29,732	17,861
Depreciation	245	220
Total expenses	<u>248,943</u>	<u>223,495</u>
Non-operating revenues – net	<u>1,596</u>	<u>584</u>
Change in net assets	<u>\$ 323</u>	<u>\$ 2,757</u>

Medicaid Revenues increased \$21,934,000 due to the combined effect of three main components. An increase in the in the Medicaid eligible count and a small net increase in the Medicaid rates combined to account for approximately a \$12,454,000 (7.86%) increase over FY2005. The third component is the additional Medicaid revenue related to the Quality Assurance Assessment Program (QAAP); \$10.9 million in FY2006 for an increase of \$9,254,000 over FY2005. These QAAP revenues are completely offset by the QAAP tax (\$10.9 million) which is included as "Other Expenses" below.

State General Fund Revenue decreased \$302,000 in FY2006 but this was mostly a reallocation to State Facilities which increased \$248,000.

Adult Benefit Waiver Revenue decreased \$121,000 in FY2006 due to longer periods of closed enrollments.

Administration Expenses increased \$441,000 in FY 2006 due primarily to increased Information Services costs of \$272,000 and economic increases. The Authority's administrative expenses are still below budget for the FY2006.

Net Core Provider Payments increased \$11,062,000 in FY 2006 as the result of economic increases, direct care wage increase, and program enhancements instituted by the Authority during the year. These economic increases and enhancements were made to improve the delivery of services to our consumers.

State Facilities Expenses increased \$2,048,000 during FY 2006 due to increased state charged rates and increased utilization due primarily to persons transferred from the Forensic Center.

Other Expenses increased \$11,265,000 largely due to the \$9,254,000 increase in QAAP tax assessed in FY2006. The CLS Oakland contract expenses (included the “Purchased care services” line on page 11 and 12 and in “Other Expenses” for this analysis) also increased \$1,274,000 in FY2006.

Statement of Cash Flows

The Authority’s total cash and cash equivalents increased in FY2006 by \$5,356,000 over FY2005. This increase is largely explained by a \$3,847,000 increase in total unpaid current liabilities at fiscal year end, along with a liquidation of invested funds of \$1,534,000.

Fiscal Year 2007

Significant events planned for FY 2007:

- Evaluating the costing of services for consumers in Oakland County.
- Using recently collected data to improve clinical practices and outcomes for consumer services.
- Establish a Utilization Management program with Core Provider Agencies (CUMA).
- Establish Centralized Access to ensure consumers have more uniform access to the Mental Health system.
- Monitor effectiveness of approved and implemented service expansions and enhancements.
- Refine fiscal monitoring efforts to continue to improve the quality of financial information at the Authority and with our Core Provider Agencies.
- Contingency planning for reduction in state funding in FY07.
- Planning for FY 2008 funding issues.

The Authority remains optimistic about its ability to be competitive in the coming years. A critical part of the continued health of the Authority is to:

- Develop consistent Utilization Management practices.
- Continuously look for ways to create efficiencies.
- Ensure that consumers have access to necessary services.
- Use of risk assessment and risk management strategies in development and monitoring of annual budget
- Ensure a balanced budget for the Authority and its core providers.
- Look for ways to maximize other sources of revenue.

The Authority is a fiscally stable, efficient and programmatically effective organization that focuses its resources on the most important aspects of our mission; supporting the advancement of social equity and improved quality of life for adults with serious mental illness, children with serious emotional disturbances, and people with developmental disabilities. We are proud of the progress this organization has made since becoming an Authority in 1999. It is our goal to keep building on this success for this year and many years to come.

Contacting the Oakland County Community Mental Health Authority

This financial report is designed to provide all interested parties with an overall picture of the financial condition of the Oakland County Community Mental Health Authority and to show accountability for the money it receives. If you have any questions regarding the content of this report, please contact:

Budget & Finance
2011 Executive Hills Blvd.
Auburn Hills, MI 48326
1-248-858-1210

Oakland County Community Mental Health Authority
Statements of Net Assets - Proprietary Funds
September 30, 2006 and 2005

	2006		
	Business Type Activities		
	CMH	Internal	
	Operations	Service	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 14,300,698	\$ -	\$ 14,300,698
Investments	18,456,163	-	18,456,163
Accounts receivable	1,443,158	-	1,443,158
Due from other funds	-	6,441,394	6,441,394
Due from primary government	16,154	11,907	28,061
Due from state	2,061,223	-	2,061,223
Interest receivable	120,116	-	120,116
Prepaid expenses	572,393	-	572,393
Total current assets	36,969,905	6,453,301	43,423,206
Capital assets (net of accumulated depreciation of \$1,811,628 in 2006 and \$1,566,355 in 2005)	4,781,666	-	4,781,666
Total assets	\$ 41,751,571	\$ 6,453,301	\$ 48,204,872
Liabilities and Net Assets			
Liabilities:			
Accounts payable	\$ 4,830,856	\$ -	\$ 4,830,856
Due to other funds	6,441,394	-	6,441,394
Due to state	5,155,501	-	5,155,501
Due to county	85,850	-	85,850
Accrued payroll and benefits	224,137	-	224,137
Accrued interest	70,935	-	70,935
Accrued compensated absences	230,938	-	230,938
Current portion - long term debt	319,132	-	319,132
Deferred revenue	2,489,129	-	2,489,129
Total current liabilities	19,847,872	-	19,847,872
Mortgage payable, net of current portion	2,257,211	-	2,257,211
Total liabilities	22,105,083	-	22,105,083
Net assets:			
Invested in capital assets, net of related debt	2,205,323	-	2,205,323
Restricted	-	6,453,301	6,453,301
Unrestricted	17,441,165	-	17,441,165
Total net assets	19,646,488	6,453,301	26,099,789
Total liabilities and net assets	\$ 41,751,571	\$ 6,453,301	\$ 48,204,872

See notes to financial statements.

2005 Business Type Activities		
CMH Operations	Internal Service	Total
\$ 8,944,212	\$ -	\$ 8,944,212
19,989,918	-	19,989,918
2,163,513	-	2,163,513
-	6,046,646	6,046,646
16,154	11,907	28,061
1,706,221	-	1,706,221
94,046	-	94,046
478,535	-	478,535
33,392,599	6,058,553	39,451,152
4,831,148	-	4,831,148
\$ 38,223,747	\$ 6,058,553	\$ 44,282,300

\$ 4,900,233	\$ -	\$ 4,900,233
6,046,646	-	6,046,646
1,611,085	-	1,611,085
-	-	-
203,839	-	203,839
79,326	-	79,326
264,675	-	264,675
304,748	-	304,748
2,518,485	-	2,518,485
15,929,037	-	15,929,037
2,576,343	-	2,576,343
18,505,380	-	18,505,380
1,950,057	-	1,950,057
-	6,058,553	6,058,553
17,768,310	-	17,768,310
19,718,367	6,058,553	25,776,920
\$ 38,223,747	\$ 6,058,553	\$ 44,282,300

Oakland County Community Mental Health Authority
Statements of Revenues, Expenses, and Change
in Fund Net Assets - Proprietary Funds
For the Years Ended September 30, 2006 and 2005

	2006		
	Business Type Activities		
	CMH Operations	Internal Service	Total
Operating revenues			
Medicaid:			
Medicaid - capitated	\$ 182,546,792	\$ -	\$ 182,546,792
Medicaid - child waiver (fee for service)	1,300,000	-	1,300,000
State General Funds:			
State general fund	45,120,319	-	45,120,319
State facilities	5,165,411	-	5,165,411
Categorical	499,845	-	499,845
Other capitated:			
Adult benefit waiver	1,910,448	-	1,910,448
MI child	144,786	-	144,786
Local:			
Transfer from Oakland County	9,620,616	-	9,620,616
Title XX	75,409	-	75,409
Other revenue	212,450	-	212,450
Grants:			
OBRA reimbursement	462,297	-	462,297
Grant revenue	612,102	-	612,102
Total operating revenues	247,670,475	-	247,670,475
Operating expenses			
Program expenses			
Administrative	9,220,386	-	9,220,386
Providers of services:			
Macomb Oakland Regional Center	117,323,710	-	117,323,710
Training and Treatment Innovations	15,787,643	-	15,787,643
Easter Seals	29,188,272	-	29,188,272
Common Ground Sanctuary	7,129,190	-	7,129,190
Community Housing Network	5,116,551	-	5,116,551
Community Network Services	27,683,585	-	27,683,585
State facilities	7,516,999	-	7,516,999
Community hospitals	8,996,484	-	8,996,484
Substance abuse	1,860,850	-	1,860,850
Purchased care services	4,955,661	-	4,955,661
Grants	612,102	-	612,102
Local match transfer - Medicaid drawdown	2,377,121	-	2,377,121
Quality Assurance Assessment (QAAP)	10,929,858	-	10,929,858
Non-program expenses - Depreciation	245,273	-	245,273
Total operating expenses	248,943,685	-	248,943,685
Operating income (loss)	(1,273,210)	-	(1,273,210)
Non-operating revenues (expenses)			
Investment income	1,400,807	322,869	1,723,676
Interest expense	(127,597)	-	(127,597)
Total non-operating revenues	1,273,210	322,869	1,596,079
Income before transfers	-	322,869	322,869
Transfers	(71,879)	71,879	-
Change in net assets	(71,879)	394,748	322,869
Net assets - beginning of year	19,718,367	6,058,553	25,776,920
Net assets - end of year	\$ 19,646,488	\$ 6,453,301	\$ 26,099,789

See notes to financial statements.

2005 Business Type Activities:		
CMH Operations	Internal Service	Total
\$ 160,612,524	\$ -	\$ 160,612,524
1,259,674	-	1,259,674
45,421,926	-	45,421,926
4,917,525	-	4,917,525
489,883	-	489,883
2,031,216	-	2,031,216
142,669	-	142,669
9,620,616	-	9,620,616
75,409	-	75,409
172,625	-	172,625
434,555	-	434,555
489,880	-	489,880
225,668,502	-	225,668,502
8,778,895	-	8,778,895
113,862,837	-	113,862,837
13,824,886	-	13,824,886
27,090,319	-	27,090,319
6,114,766	-	6,114,766
4,922,647	-	4,922,647
25,351,479	-	25,351,479
5,469,054	-	5,469,054
8,512,631	-	8,512,631
1,791,558	-	1,791,558
3,013,664	-	3,013,664
489,880	-	489,880
2,377,121	-	2,377,121
1,675,913	-	1,675,913
219,508	-	219,508
223,495,158	-	223,495,158
2,173,344	-	2,173,344
528,755	196,921	725,676
(141,711)	-	(141,711)
387,044	196,921	583,965
2,560,388	196,921	2,757,309
1,943,364	(1,943,364)	-
4,503,752	(1,746,443)	2,757,309
15,214,615	7,804,996	23,019,611
\$ 19,718,367	\$ 6,058,553	\$ 25,776,920

Oakland County Community Mental Health Authority
Statements of Cash Flows - Proprietary Fund
For the Years Ended September 30, 2006 and 2005

	2006		
	Business Type Activities		
	CMH Operations	Internal Service	Total
Cash flows from operating activities			
Cash receipts from the State and other government:	\$ 248,006,472	\$ -	\$ 248,006,472
Cash payments to suppliers	(238,850,762)	-	(238,850,762)
Cash payments to employees	(6,394,058)	-	(6,394,058)
Net cash provided by operating activities	2,761,652	-	2,761,652
Cash flows from non-capital financing activities:			
Transfers from (to) other funds	322,869	(322,869)	-
Net cash provided by (used in) non-capital financing activities	322,869	(322,869)	-
Cash flows used in capital and related financing activities			
Acquisition of capital assets	(195,791)	-	(195,791)
Principal payments on long-term debt	(304,748)	-	(304,748)
Interest expense	(135,988)	-	(135,988)
Net cash used in capital and related financing activities	(636,527)	-	(636,527)
Cash flows from investing activities			
Investment income	1,374,737	322,869	1,697,606
Net (purchase) sale of investments	1,533,755	-	1,533,755
Net cash provided by (used in) investing activities	2,908,492	322,869	3,231,361
Net increase in cash and cash equivalents:	5,356,486	-	5,356,486
Cash and cash equivalents - beginning of year	8,944,212	-	8,944,212
Cash and cash equivalents - end of year	\$ 14,300,698	\$ - 0 -	\$ 14,300,698
Reconciliation of operating income to net cash used in operating activities			
Operating income	\$ (1,273,210)	\$ -	\$ (1,273,210)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	245,273	-	245,273
Changes in operating assets and liabilities			
Accounts receivable	720,355	-	720,355
Due from governments	(355,002)	-	(355,002)
Prepayments and other assets	(93,858)	-	(93,858)
Accounts payable	(69,377)	-	(69,377)
Due to governments	3,630,266	-	3,630,266
Accrued liabilities	(13,439)	-	(13,439)
Deferred revenue	(29,356)	-	(29,356)
Net cash provided by operating activities	\$ 2,761,652	\$ - 0 -	\$ 2,761,652

See notes to financial statements.

2005		
Business Type Activities		
CMH Operations	Internal Service	Total
\$ 227,775,898	\$ -	\$ 227,775,898
(224,016,593)	-	(224,016,593)
(6,203,810)	-	(6,203,810)
(2,444,505)	-	(2,444,505)
196,921	(196,921)	-
196,921	(196,921)	-
(113,287)	-	(113,287)
(291,013)	-	(291,013)
(149,724)	-	(149,724)
(554,024)	-	(554,024)
807,778	196,921	1,004,699
173,818	-	173,818
981,596	196,921	1,178,517
(1,820,012)	-	(1,820,012)
10,764,224	-	10,764,224
\$ 8,944,212	\$ - 0 -	\$ 8,944,212
\$ 2,173,344	\$ -	\$ 2,173,344
219,509	-	219,509
1,750,450	-	1,750,450
542,800	-	542,800
(18,394)	-	(18,394)
(120,084)	-	(120,084)
(6,817,712)	-	(6,817,712)
11,436	-	11,436
(185,854)	-	(185,854)
\$ (2,444,505)	\$ - 0 -	\$ (2,444,505)

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

1. Summary of significant accounting policies

The fund financial statements of the Oakland County Community Mental Health Authority (the “Authority”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The more significant of the Authority’s accounting policies are described below.

A. Reporting entity

The Authority, which is a governmental organization, was created under an agreement as authorized by Public Act 267 of 1976 for the purpose of providing services related to the mental health and developmental disability needs of Oakland County residents. The Authority’s activities are funded through state allocations, federal grants, county appropriations, service fees, and local gifts and grants. The Authority’s financial statements are included in the County of Oakland’s (“County”) Comprehensive Annual Financial Report for the year ended September 30, 2006 as a discretely presented component unit.

The Authority receives its revenues through state allocations as follows:

	<u>2006</u>	<u>2005</u>
General fund	21%	23%
Medicaid	73	71
	<u>94%</u>	<u>94%</u>

B. Financial statement presentation

In 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Under GASB 34, the Authority is classified as a special purpose government and is required to present statements required for enterprise funds.

The Authority has one internal service fund (operating risk management fund) and an enterprise fund (CMH operating fund). Since the measurement focus/basis of accounting is similar between enterprise and internal service funds, a government-wide financial statement and fund financial statement would present duplicate information, therefore, a separate government-wide statement has not been presented.

C. Fund accounting

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Proprietary Funds

Enterprise Fund – The CMH operations fund is used to account for those activities that are financed and operated in a manner similar to private business or where the Authority has decided that the determination of revenues earned, costs incurred, and/or net income is necessary for management accountability. There is one Enterprise Fund of the Authority which accounts for their general operations.

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

1. Summary of significant accounting policies – (continued)

C. Fund accounting – (continued)

Proprietary Funds – (continued)

Internal Service Fund –The Operating Risk Management Fund is the Authority’s Internal Service Fund. It accounts for any transactions related to the financing of potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health.

D. Basis of accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The proprietary funds are accounted for on a cost of services or “economic resources” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decrease (expenses) in net total assets.

E. Financial statement presentation

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund’s principal ongoing operations. The principal operating revenues of the Authority’s Enterprise Fund and Internal Service Fund are charges to customers from services. Operating expenses for the Enterprise and Internal Service Funds include cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

F. Cash and cash equivalents

Cash and cash equivalents include depository accounts, and institutional money market accounts. For cash flow purposes, the Authority considers short-term investments with a maturity date of less than 90 days at the time of acquisition to be cash and cash equivalents.

G. Investments

Investments are stated at fair value which approximates cost.

H. Interfund receivables/payables

During the course of operations, transactions occur between individual funds. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

I. Accounts receivable

Uncollectible receivables are expected to be immaterial and no allowance has been reserved.

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

1. Summary of significant accounting policies – (continued)

J. Prepaid expenses

Payments made to vendors for services that will benefit future periods are recorded as prepaid expenses in the accompanying balance sheet.

K. Capital assets

Assets purchased whose value exceeds \$5,000 are capitalized and reported in the proprietary fund types. All purchased fixed assets are recorded at cost. Donated capital assets, if any, are valued at their estimated fair value on the date received. Capital assets are being depreciated on a straight-line basis over estimated useful lives of five to thirty years.

L. Restricted net assets

The internal service fund assets are restricted for future uninsured losses as defined by State funding requirements.

M. Compensated absences

The Authority provides three types of compensated absences; vacation, sick, and personal time. Accumulated compensated absences are accrued when incurred.

N. Governmental Accounting Standards Board Statement 20

In accordance with Governmental Accounting Standards Board (GASB) Statement 20, the Authority has elected not to apply the Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 to its proprietary funds.

O. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Deposits and investments

The captions on the financial statements for the deposits and investment accounts are as follows:

	<u>Deposits</u>	
	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 14,300,698	\$8,944,212
Investments	<u>18,456,163</u>	<u>19,989,918</u>
	<u>\$32,756,861</u>	<u>\$28,934,130</u>

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

2. Deposits and investments – (continued)

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivision, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has currently designated one bank for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all the items listed above except the mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority's deposit policy for custodial credit risk is that all securities transactions, except certificates of deposits, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian, as designated by the Authority, and shall be evidenced by a safekeeping receipt. Non-collateral, non-negotiable certificates of deposits, as allowed under Michigan law, shall be evidenced by a safekeeping receipt from the issuing bank. At year end, the Authority had \$14,932,530 of bank deposits (money market, checking and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's policy for custodial credit risk is that that all securities transactions, except certificates of deposits, shall be conducted on a delivery-versus-payment basis. Securities will be held by a third party custodian, as designated by the Authority, and shall be evidenced by a safekeeping receipt. Non-collateral, non-negotiable certificates of deposits, as allowed under Michigan law, shall be evidenced by a safekeeping receipt from the issuing bank. At September 30, 2006 and 2005, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

<u>Type of Investment</u>	<u>2006 Carrying Value</u>	<u>2005 Carrying Value</u>	<u>How Held</u>
Fannie Mae notes	\$ 7,335,026	\$ 9,093,339	Counterparty
Federal Home Loan Bank notes	4,263,450	4,072,238	Counterparty
Freddie Mac notes	<u>6,857,687</u>	<u>6,824,341</u>	Counterparty
	<u>\$18,456,163</u>	<u>\$19,989,918</u>	

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

2. Deposits and investments – (continued)

Interest rate risk:

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority's investment policy states that the Authority will not directly invest in securities that mature more than three years from the date of purchase unless matched to a specific cash flow need. Funds with longer term horizons may be invested in securities exceeding the three-year limitation provided that maturity dates coincide as near as possible with the expected use of the funds. As of September 30, 2006 and September 30, 2005, the respective average maturities of investments are as follows:

2006 <u>Investment Type</u>	<u>Investment Maturities</u>		
	<u>Carrying Value</u>	<u>Less than One Year</u>	<u>One to Three Years</u>
Fannie Mae notes	\$ 7,335,026	\$5,455,552	\$ 1,879,474
Federal Home Loan Bank notes	4,263,450	4,263,450	-
Freddie Mac notes	6,857,687	5,609,918	1,247,769
	<u>\$ 18,456,163</u>	<u>\$ 15,328,920</u>	<u>\$ 3,127,243</u>
	100.0%	83.1%	16.9%

2005 <u>Investment Type</u>	<u>Investment Maturities</u>		
	<u>Carrying Value</u>	<u>Less than One Year</u>	<u>One to Three Years</u>
Fannie Mae notes	\$ 9,093,339	\$3,471,103	\$ 5,622,236
Federal Home Loan Bank notes	4,072,238	2,231,813	1,840,425
Freddie Mac notes	6,824,341	2,532,160	4,292,181
	<u>\$19,989,918</u>	<u>\$8,235,076</u>	<u>\$11,754,842</u>
	100.0%	41.2%	58.8%

Credit risk:

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. Authority's investment policy further limits its investment choices to those with a market rate of return during an economic and budgetary environment of stable rates. As of September 30, 2006 and September 30, 2005, the respective credit quality ratings of debt securities (other than the U.S. government) are as follows:

2006 <u>Investment</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Fannie Mae notes	\$ 7,335,026	Aaa	Moody's
Federal Home Loan notes	4,263,450	Aaa	Moody's
Freddie Mac notes	<u>6,857,687</u>	Aaa	Moody's
	<u>\$ 18,456,163</u>		

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

2. Deposits and investments – (continued)

Credit risk: – (continued)

2005 <u>Investment</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Fannie Mae notes	\$ 9,093,339	Aaa	Moody's
Federal Home Loan notes	4,072,238	Aaa	Moody's
Freddie Mac notes	<u>6,824,341</u>	Aaa	Moody's
	<u>\$ 19,989,918</u>		

Concentration of credit risk:

The Authority's investment policy limits any single security type to 40% of the investment portfolio, with the exception of U.S. treasury securities and federal agency securities. The policy also limits the investment portfolio to no more than 20% of the total invested with a single commercial bank. As of September 30, 2006, the Authority has 35% of its total investment portfolio with Fifth Third Bank. As of September 30, 2006, the Authority had 23% of its investments in Federal Home Loan Bank notes and 37% of its investments in Freddie Mac notes.

3. Capital assets

The capital assets additions, retirements, and balances in the Authority's enterprise fund for the years ended September 30, 2006 and 2005 are as follows:

	Balance September 30, <u>2005</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2006</u>
Capital assets being depreciated:				
Computer equipment	\$ 1,605,948	\$ 188,185	\$ -	\$ 1,794,133
Furniture, fixtures, and equipment	58,794	7,606	-	66,400
Building	2,611,000	-	-	2,611,000
Building renovations	<u>1,282,761</u>	-	-	<u>1,282,761</u>
Subtotal	5,558,503	195,791	-	5,754,294
Less accumulated depreciation:				
Computer equipment	(1,288,054)	(102,560)	-	(1,390,614)
Furniture, fixtures, and equipment	(21,669)	(13,153)	-	(34,822)
Building	(174,067)	(87,034)	-	(261,101)
Building renovations	<u>(82,565)</u>	<u>(42,526)</u>	-	<u>(125,091)</u>
Subtotal	<u>(1,566,355)</u>	<u>(245,273)</u>	-	<u>(1,811,628)</u>
Net capital assets being depreciated	3,992,148	(49,482)		3,942,666
Land	<u>839,000</u>	-	-	<u>839,000</u>
Net capital assets	<u>\$ 4,831,148</u>	<u>\$ (49,482)</u>	<u>\$ -0-</u>	<u>\$ 4,781,666</u>

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

3. Capital assets – (continued)

	Balance September 30, <u>2004</u>	<u>Additions</u>	<u>Retirements</u>	Balance September 30, <u>2005</u>
Capital assets being depreciated:				
Computer equipment	\$ 1,484,848	\$121,100	\$ -	\$ 1,605,948
Furniture, fixtures, and equipment	58,794	-	-	58,794
Building	2,611,000	-	-	2,611,000
Building renovations	1,290,574	-	(7,813)	1,282,761
Subtotal	5,445,216	121,100	(7,813)	5,558,503
Less accumulated depreciation:				
Computer equipment	(1,209,601)	(78,453)	-	(1,288,054)
Furniture, fixtures, and equipment	(9,912)	(11,757)	-	(21,669)
Building	(87,033)	(87,034)	-	(174,067)
Building renovations	(40,300)	(42,265)	-	(82,565)
Subtotal	(1,346,846)	(219,509)	-	(1,566,355)
Net capital assets being depreciated	4,098,370	(98,409)	(7,813)	3,992,148
Land	839,000	-	-	839,000
Net capital assets	<u>\$ 4,937,370</u>	<u>\$(98,409)</u>	<u>\$ (7,813)</u>	<u>\$ 4,831,148</u>

4. Defined contribution pension plans

The Authority participates in a qualified defined contribution pension plan under IRS Code Section 401(a) managed and administered by the I.C.M.A. Retirement Corporation. This pension plan was established by the Authority to provide benefits at retirement to the Authority's employees. Plan members are not required to contribute to the plan but have the option of contributing up to 5% of covered salary depending on the date of hire, transfer from Oakland County and union contracts. The Authority is required to contribute from 5% to 6% of covered payroll. Contributions made by the Authority progressively vest over seven years. Plan provisions and contribution requirements are established and may be amended by the Authority. Employer and employee contributions were made in the amount of \$272,870 and \$56,336, respectively, for the fiscal year ending September 30, 2006 and \$254,342 and \$54,820, respectively, for the fiscal year ending September 30, 2005.

The Authority has also elected to participate in a qualified defined contribution pension plan under IRS Code Section 401(a) in lieu of social security contributions for full-time and eligible part-time employees. The plan is managed and administered by I.C.M.A. Retirement Corporation. The plan requires contributions from qualified employees at a rate of 6.2% and a matching contribution from the Authority at a rate of 6.2%. Plan provisions and contribution requirements are established and may be amended by the Authority. Both employee and employer contributions are 100% vested at the time of contribution. Employer and employee contributions were made in the amounts of \$283,961 and \$272,131 for the years ending September 30, 2006 and September 30, 2005, respectively.

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

5. Risk management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (worker's compensation), as well as medical benefits provided to employees. During the year ended September 30, 2006 and 2005, the Authority carried commercial insurance to cover all risk of losses, except for employee medical benefits, for which the Authority is self-insured. Previously, the Authority was covered through the County of Oakland's self-insurance plan. The Authority has had no settled claims resulting from these risks that exceeded their commercial coverage in the past four years.

In addition to these coverages, the Authority has established an internal service fund to cover any potential operating shortfalls under the terms of its contract with the Michigan Department of Community Health.

The Authority is self-insured for employee medical benefits. The Authority has a stop loss insurance policy of \$100,000 per specific claim per year/\$592,020 aggregate.

6. Long-term debt

	Balance September 30, <u>2005</u>	Additions (Reductions)	Balance September 30, <u>2006</u>	Due Within One Year
Mortgage loan with a finance company payable in annual installments of \$440,736, including interest at 4.72%, secured by building, improvements, and real estate, due on March 10, 2013	\$2,881,091	\$ (304,748)	\$2,576,343	\$319,132

	Balance September 30, <u>2004</u>	Additions (Reductions)	Balance September 30, <u>2005</u>	Due Within One Year
Mortgage loan with a finance company payable in annual installments of \$440,736, including interest at 4.72%, secured by building, improvements, and real estate, due on March 10, 2013	\$3,172,104	\$(291,013)	\$2,881,091	\$304,748

The annual requirements to pay principal and interest on the outstanding loan obligations at September 30, 2006 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 319,132	\$121,604	\$ 440,736
2008	334,195	106,541	440,736
2009	349,969	90,767	440,736
2010	366,488	74,248	440,736
2011	383,786	56,950	440,736
2012 and after	822,773	58,699	881,472
	<u>\$2,576,343</u>	<u>\$ 508,809</u>	<u>\$3,085,152</u>

Oakland County Community Mental Health Authority
Notes to Financial Statements
September 30, 2006 and 2005

7. Risk reserve fund net assets

Contributions to the Risk Reserve Internal Service Funds are considered eligible expenses under the MDCH contract, and accordingly are included on the Combined Statement of Revenue, Expenses, and Changes in Fund Net Assets in the various expenses categories. During the year ended September 30, 2005, \$1,943,364 of the funds in the Operating Risk Reserve Internal Service Fund were transferred to the CMH Operation Fund and utilized for program expenses during the year.

8. Interfund receivables, payables and transfers

The Authority has the following interfund receivables and payable at September 30, 2006 and 2005:

	<u>2006</u>		<u>2005</u>	
	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Enterprise Fund – CMH Operations	\$ -	\$6,369,515	\$ -	\$6,046,646
Internal Service Fund:				
Operating Risk Reserve	<u>6,369,515</u>	<u>-</u>	<u>6,046,646</u>	<u>-</u>
Total	<u>\$6,369,515</u>	<u>\$6,369,515</u>	<u>\$6,046,646</u>	<u>\$6,046,646</u>

The amounts represent the Internal Service Fund's share of pooled cash and cash equivalents balance.

Transfers are made between the funds annually, to adjust the Internal Service fund balance to the required amount.

9. State general fund revenue

In 2006 and 2005, there existed State General Fund program funds received in excess of General Fund program expenses by approximately \$1.6 million and \$2.5 million, respectively. The excess is allowed to be retained by the Authority and expended on program needs in the next year. This amount is reflected as deferred revenue at September 30, 2006 and 2005.

Supplemental Information

**Oakland County Community Mental Health Authority
Statements of Revenues, Expenses, and Change
in Fund Net Assets - Enterprise Fund - Budget to Actual
For the Years Ended September 30, 2006 and 2005**

	2006			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues				
Medicaid - specialty managed care capitation	\$ 174,425,135	\$ 181,207,162	\$ 182,546,792	\$ 1,339,630
Medicaid - child waiver	1,559,840	1,300,000	1,300,000	-
State general fund	45,450,583	46,812,243	45,120,319	(1,691,924)
Adult benefit waiver	2,158,973	2,041,547	1,910,448	(131,099)
State facilities	4,917,525	5,317,748	5,165,411	(152,337)
Transfers from Oakland County	9,620,616	9,620,616	9,620,616	-
MI child	142,265	145,032	144,786	(246)
Other revenue	12,000	12,000	212,450	200,450
Categorical	464,883	499,844	499,845	1
OBRA reimbursement	581,211	486,789	462,297	(24,492)
Grant revenue	507,259	628,676	612,102	(16,574)
Title XX	75,410	75,410	75,409	(1)
Total operating revenues	239,915,700	248,147,067	247,670,475	(476,592)
Operating expenses				
Program expenses				
OCCMHA administration	9,294,154	9,294,154	9,220,386	73,768
Macomb Oakland Regional Center	112,216,567	117,532,662	117,323,710	208,952
Training and Treatment Innovations	14,859,594	15,765,946	15,787,643	(21,697)
Easter Seals	28,245,301	29,058,968	29,188,272	(129,304)
Common Ground Sanctuary	7,343,803	7,498,122	7,129,190	368,932
Community Housing Network	4,864,233	5,045,437	5,116,551	(71,114)
Community Network Services	26,152,797	27,498,625	27,683,585	(184,960)
State facilities	5,901,960	7,427,866	7,516,999	(89,133)
Community hospitals	9,155,924	9,059,190	8,996,484	62,706
Substance abuse	2,014,920	2,014,920	1,860,850	154,070
Purchased care services	6,782,183	4,863,762	4,955,661	(91,899)
Grants	507,259	628,676	612,102	16,574
Local match transfer - Medicaid drawdown	2,377,116	2,377,116	2,377,121	(5)
Quality Assurance Assessment (QAAP)	10,465,508	10,981,020	10,929,858	51,162
Non-program expenses - Depreciation	216,308	216,308	245,273	(28,965)
Total operating expenses	240,397,627	249,262,772	248,943,685	319,087
Operating income	(481,927)	(1,115,705)	(1,273,210)	(157,505)
Non-operating revenues (expenses)				
Interest income	625,000	1,258,778	1,400,807	142,029
Interest expense	(143,073)	(143,073)	(127,597)	15,476
Total non-operating revenues	481,927	1,115,705	1,273,210	157,505
Income before transfers	-	-	-	-
Transfers	-	-	(71,879)	(71,879)
Change in net assets	-	-	(71,879)	(71,879)
Net assets - beginning of year	19,718,367	19,718,367	19,718,367	-
Net assets - end of year	\$ 19,718,367	\$ 19,718,367	\$ 19,646,488	\$ (71,879)

2005		
Final Budget	Actual	Variance Favorable (Unfavorable)
\$ 157,232,071	\$ 160,612,524	\$ 3,380,453
1,559,844	1,259,674	(300,170)
47,889,078	45,421,926	(2,467,152)
2,259,423	2,031,216	(228,207)
4,917,525	4,917,525	-
9,620,616	9,620,616	-
140,088	142,669	2,581
47,943	172,625	124,682
489,883	489,883	-
387,474	434,555	47,081
561,315	489,880	(71,435)
75,408	75,409	1
225,180,668	225,668,502	487,834
9,376,840	8,778,895	597,945
112,700,596	113,862,837	(1,162,241)
14,421,698	13,824,886	596,812
27,923,902	27,090,319	833,583
6,901,216	6,114,766	786,450
4,906,536	4,922,647	(16,111)
25,571,659	25,351,479	220,180
5,901,960	5,469,054	432,906
9,155,924	8,512,631	643,293
2,014,920	1,791,558	223,362
3,740,295	3,013,664	726,631
561,315	489,880	71,435
2,377,116	2,377,121	(5)
-	1,675,913	(1,675,913)
134,984	219,508	(84,524)
225,688,961	223,495,158	2,193,803
(508,293)	2,173,344	2,681,637
650,004	528,755	(121,249)
(141,711)	(141,711)	-
508,293	387,044	(121,249)
-	2,560,388	2,560,388
-	1,943,364	1,943,364
-	4,503,752	4,503,752
15,214,615	15,214,615	-
\$ 15,214,615	\$ 19,718,367	\$ 4,503,752

**Oakland County Community Mental Health Authority
Schedules of Administrative Expenses - Enterprise Fund
Budget to Actual
For the Years Ended September 30, 2006 and 2005**

	2006			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Salaries and benefits	\$ 6,950,562	\$ 6,950,562	\$ 6,380,619	\$ 569,943
Accreditation	1,386	1,386	-	1,386
Advertising	33,653	33,653	13,932	19,721
Accounting and auditing services	96,401	96,401	55,441	40,960
Communications	47,270	47,270	53,558	(6,288)
Contracted services	32,490	32,490	50,840	(18,350)
Contracted services	738,336	738,336	829,061	(90,725)
Consumer initiatives	32,599	32,599	27,392	5,207
Copier charges	27,945	27,945	54,534	(26,589)
Expendable furniture and equipment	82,565	82,565	168,578	(86,013)
Memberships, dues, and publications	13,108	13,108	34,614	(21,506)
Information systems operation	42,413	42,413	27,539	14,874
Insurance	172,701	172,701	201,195	(28,494)
Legal services	85,992	85,992	40,237	45,755
Licenses and permits	34,619	34,619	75,503	(40,884)
Medical exams	415	415	575	(160)
Mileage	33,982	33,982	56,763	(22,781)
Miscellaneous	82,600	82,600	5,446	77,154
Per diems and fees	19,313	19,313	76,227	(56,914)
Postage	44,049	44,049	47,624	(3,575)
Printing	70,462	70,462	75,583	(5,121)
Provisions	31,661	31,661	30,452	1,209
Rent	-	-	-	-
Repairs and maintenance	330,627	330,627	557,063	(226,436)
Supplies	52,199	52,199	58,644	(6,445)
Transportation	10,976	10,976	4,792	6,184
Travel and conference	36,996	36,996	38,794	(1,798)
Training	121,568	121,568	190,492	(68,924)
Utilities	67,266	67,266	64,888	2,378
Total administrative expense	\$ 9,294,154	\$ 9,294,154	\$ 9,220,386	\$ 73,768

2005		
Final Budget	Actual	Variance Favorable (Unfavorable)
\$ 6,445,552	\$ 6,215,246	\$ 230,306
35,000	15,719	19,281
14,000	26,594	(12,594)
40,000	65,449	(25,449)
89,545	52,055	37,490
43,850	41,904	1,946
697,360	696,723	637
24,000	17,352	6,648
35,016	49,438	(14,422)
414,523	224,033	190,490
26,096	31,320	(5,224)
154,000	47,219	106,781
150,000	158,931	(8,931)
155,000	74,507	80,493
35,059	99,304	(64,245)
384	300	84
28,739	34,526	(5,787)
-	10,764	(10,764)
204,751	89,634	115,117
38,100	44,369	(6,269)
44,100	81,910	(37,810)
32,556	19,194	13,362
-	-	-
327,050	378,103	(51,053)
65,659	64,539	1,120
11,500	9,548	1,952
30,500	40,261	(9,761)
170,500	121,997	48,503
64,000	67,956	(3,956)
\$ 9,376,840	\$ 8,778,895	\$ 597,945

Oakland County Community Mental Health Authority

**Federal Awards
Supplemental Information
September 30, 2006**

Oakland County Community Mental Health Authority

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Independent Auditor's Report

Members of the Board
Oakland County Community Mental Health Authority

We have audited the basic financial statements of Oakland County Community Mental Health Authority, a component unit of Oakland County, as of and for the year ended September 30, 2006, and have issued our report thereon dated November 21, 2006. Those financial statements are the responsibility of the management of Oakland County Community Mental Health Authority. Our responsibility was to express an opinion on those financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Oakland County Community Mental Health Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

November 21, 2006



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing
Standards*

Members of the Board
Oakland County Community Mental Health Authority

We have audited the basic financial statements of Oakland County Community Mental Health Authority, a component unit of Oakland County, as of and for the year ended September 30, 2006, and have issued our report thereon dated November 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Oakland County Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oakland County Community Mental Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board
Oakland County Community Mental Health Authority

This report is intended solely for the information and use of the audit committee, Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 21, 2006



Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Members of the Board
Oakland County Community Mental Health Authority

Compliance

We have audited the compliance of Oakland County Community Mental Health Authority with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The major federal programs of Oakland County Community Mental Health Authority are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Oakland County Community Mental Health Authority's management. Our responsibility is to express an opinion on Oakland County Community Mental Health Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Oakland County Community Mental Health Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Oakland County Community Mental Health Authority's compliance with those requirements.

In our opinion, Oakland County Community Mental Health Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Oakland County Community Mental Health Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Oakland County Community Mental Health Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

November 21, 2006

Oakland County Community Mental Health Authority

Schedule of Expenditures of Federal Awards Year Ended September 30, 2006

Federal Agency/Pass-through Agency/Program Title	Contract Number	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Passed through the Michigan Department of Community Health:			
Shelter Plus Care	20050727	14.238	\$ 905
Shelter Plus Care	20060749	14.238	233,384
Subtotal			<u>234,289</u>
U.S. Department of Health and Human Services:			
Passed through the Michigan Department of Community Health:			
PATH Grant	20060784	93.150	84,204
PATH Grant	20060785	93.150	97,443
Subtotal			<u>181,647</u>
Block Grants for Community Mental Health Services:			
Community Network Services Anti-Stigma Arab-American and Chaldean Mental Illness and Treatment Anti-Stigma Project	20060897	93.958	42,975
Community Mental Health Satellite Office	20051047	93.958	1,000
Family Psychological Education	20060897	93.958	5,257
Community Network Services ICCD Training	20061248	93.958	41,956
Community Network Services Drop In Center	20060897	93.958	6,300
Community Network Services Train the Trainer	20051047	93.958	3,783
Easter Seals of Michigan Respite	20060897	93.958	1,953
LEAN Respite	20060897	93.958	12,385
Innovation in Jail Diversion	20060897	93.958	66,481
Subtotal	20040519	93.958	<u>30</u>
Subtotal			<u>182,120</u>
Medical Assistance Program:			
OBRA/PASARR	N/A	93.778	346,723
Total Federal Expenditures			<u>\$ 944,779</u>

Oakland County Community Mental Health Authority

Notes to Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2006

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Oakland County Community Mental Health Authority and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 – Reconciliation to Fund Financial Statements

Revenue per the fund financial statements:

OBRA reimbursement	\$ 462,297
Grant Revenue	<u>612,102</u>
	1,074,399
Less: State funding of OBRA reimbursements and grants	<u>129,620</u>
Federal Revenue per the Schedule of Expenditures of Federal Awards	<u><u>\$ 944,779</u></u>

Oakland County Community Mental Health Authority

Notes to Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2006

Note 3 – Subrecipient Awards

During 2006, \$925,462 of federal funding was expended by subrecipients. \$19,317 of OBRA/PASARR funding remained with OCCMHA for indirect cost reimbursements.

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Current Year Cash Transferred to Subrecipient
U.S. Department of Housing and Urban Development: Passed through the Michigan Department of Community Health: Shelter Plus Care	14.238	\$ 234,289
U.S. Department of Health and Human Services: Passed through the Michigan Department of Community Health: PATH Grant	93.150	181,647
Block Grants for Community Mental Health Services:	93.958	182,120
Medical Assistance Program:	93.778	327,406
Total Federal Expenditures Transferred		<u>\$ 925,462</u>

Oakland County Community Mental Health Authority

Schedule of Findings and Questioned Costs Year Ended September 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major program(s):

CFDA Number	Name of Federal Program or Cluster
93.778	Medical Assistance Program - OBRA/PASARR

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low risk auditee? ☒ Yes ☐ No

Oakland County Community Mental Health Authority

Schedule of Findings and Questioned Costs (Continued) Year Ended September 30, 2006

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None Noted

Oakland County Community Mental Health Authority

Notes to Schedule of Expenditures of Federal Awards (Continued) Year Ended September 30, 2006

Section III - Federal Program Audit Findings

Reference Number	Findings
	None Noted



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February 22, 2007

Members of Management
Oakland County Community Mental Health Authority
Auburn Hills, Michigan

We recently completed our audit of the basic financial statements of Oakland County Community Mental Health Authority (the Authority) for the year ended September 30, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

DIVERSIFICATION OF INVESTMENTS

The investment policy, as adopted by the board on February 15, 2005 states in Section 9 – Diversification that no more than 20% of the total investment portfolio will be invested with a single commercial bank. We noted that as of September 30, 2006, 39% of the Authority's deposits and investments were invested with Fifth Third bank. This includes the savings account deposits with Fifth Third as well as the Fifth Third Money Market accounts. We recommend that the board review the investment policy to confirm the diversification specifications laid out in Section 9 properly reflects the Board's desired investment diversification of the Authority. If the policy does not reflect the intent of the board, we recommend that the investment policy be updated and if it does reflect the intent of the board, we suggest that the investments be reviewed for redistribution between other financial institutions to bring them into compliance with this section of the investment policy.

OLD OUTSTANDING CHECKS

The Authority's Bank Reconciliation Policy states that "all checks outstanding for more than twelve months will be voided and returned to the general cash account". According to the Department of Treasury of the State of Michigan's Uniform Unclaimed Property Act (escheats law), the funds from checks issued that were never cashed should be turned over to the Department of Treasury. We recommend that the Authority consider revising its Bank Reconciliation Policy in light of the State of Michigan escheats provision.

STANDARD WORKPAPER PROTOCOL

In reviewing the provider monitoring and settlement calculation workpapers prepared by each of the fiscal coordinators, we noted that there was no standard format for documentation or standard for records management being followed. For instance in one particular area of provider monitoring we noted three different methodologies being used. In one instance, we noted the results of testing was documented in an Excel spreadsheet and then printed and filed in a binder. Another instance noted that testing was documented manually in the fiscal coordinator's shorthand (which is not universally understood). The third case noted documentation had not been printed as of the date of fieldwork and existed only on the

fiscal coordinator's personal computer. Also, in most cases no conclusion as to the provider's compliance or findings needing follow up was present.

We recommend that for each area of provider monitoring and settlement calculations that a standard records management protocol be developed to be used by each of the fiscal coordinators. The standard protocol should ensure that every piece of required information is documented in each area. Also a standard protocol will allow for consistency of records prepared by the different fiscal coordinators and would help facilitate any succession of the work from one employee to another.

GRANT ACCOUNTING

Accounting and reporting for grants is a complex area that is subject to federal and state regulations. We suggest that because of the intricacies in this area that any staff responsible for the accounting and preparing schedules relating to grants attend training to better understand certain grant related reporting, such as preparation of the Schedule of Expenditures and Federal Awards (SEFA).

NEW ACCOUNTING PRONOUNCEMENTS & OTHER REGULATORY ITEMS OF INTEREST

Statement on Auditing Standard 103 - Audit Documentation: In December 2005, American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued a new Statement on Auditing Standards (SAS), which superseded SAS 96. The effective date is for audits of financial statements for periods ending on or after December 31, 2006 (fiscal year ending September 30, 2007 for the Authority).

This standard clarifies and increases the requirements that auditors must follow in obtaining, managing and retaining documentation that supports the audit opinion. It prescribes the form, content and extent of audit documentation necessary to support the audit work. It also redefines the method used to determine the dating of the auditors report and creates a "lock down" date for the audit file.

The substantive implication of this new standard is that it is likely that auditors will have more requests for information beyond the end of on-site fieldwork until the report is subsequently formally issued.

Statement on Auditing Standard 112: On May 25, 2006, the American Institute of Certified Public Accountants (AICPA) Audit Standards Board issued Statement on Auditing Standards (SAS) 112, *Communicating Internal Control Related Matters Identified in an Audit*, which supersedes SAS 60, *Communication of Internal Control Related Matters Noted in an Audit*.

The effective date is for audits of financial statements for periods ending on or after December 15, 2006 (fiscal year ending September 30, 2007 for the Authority).

This standard establishes standards and provides guidance regarding the auditor's communication responsibility to the audit committee or its equivalent concerning significant deficiencies and material weaknesses in internal control noted in a financial statement audit. The standard defines internal control deficiency, significant deficiency (this term replaces and the term reportable condition), and material weakness. Internal control deficiencies that constitute significant deficiencies and material weaknesses will be reported to the audit committee or its equivalent in writing and will be made no later than 60 days following the release date of the auditor's report on the financial statements.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The implication of this standard is that the threshold of what internal control items are to be communicated to the Board has been lowered. For your knowledge, while this Standard does not apply to the audit for the year ended September 30, 2006, there were no items noted during the audit that would have been considered "significant deficiencies."

Statement on Auditing Standards 104 to 111– The Risk Assessment Standards: The AICPA issued Statements on Auditing Standards (SAS 104 – SAS 111) that will substantially affect the auditing process. The effective date for implementation is for periods beginning on or after December 15, 2006. The ramifications for the audit process are substantial. At this point, the specific impact of these standards on our audit process is being evaluated and we will continue to keep you apprised of the status.

We would like to thank all of the Authority personnel for their assistance during the audit. We appreciate the opportunity to serve as your auditors. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

Plante & Moran, PLLC